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REPORT

on the proposal for a Council regulation amending Regulation No 3448/93
laying down the trade arrangements applicable to certain goods resulting from
the processing of agricultural products
(COM(1999) 717 - C5-095/2000 - 1999/0284(CNS))

Committee on Agriculture and Rural Development

Rapporteur: Dominique F. C. Souchet

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- *** Assent procedure
*majority of Parliament's component Members except in cases
covered by Articles 105, 107, 161 and 300 of the EC Treaty and
Article 7 of the EU Treaty*
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission)

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PROCEDURAL PAGE

By letter of 23 February 2000 the Council consulted Parliament, pursuant to Articles 37 and 133 of the EC Treaty, on the proposal for a Council regulation amending Regulation No 3448/93 laying down the trade arrangements applicable to certain goods resulting from the processing of agricultural products (COM(1999) 717 - C5-0095/2000 - 1999/0284(CNS)).

At the sitting of 1 March 2000 the President of Parliament announced that she had referred this proposal to the Committee on Agriculture and Rural Development as the committee responsible and the Committee on Budgets for its opinion (C5-0095/2000).

The Committee on Agriculture and Rural Development appointed Dominique F. C. Souchet rapporteur at its meeting of 26 January 2000.

The committee considered the Commission proposal and draft report at its meetings of 19 April 2000, 11 July 2000, 29 August 2000 and 12 September 2000.

At the last meeting it adopted the draft legislative resolution by 34 votes to 2.

The following were present for the vote: Friedrich-Wilhelm Graefe zu Baringdorf, chairman; Vincenzo Lavarra, vice-chairman, Dominique F.C. Souchet, rapporteur; Gordon J. Adam, Danielle Auroi, María del Pilar Ayuso González (for Joseph Daul), Alexandros Baltas (for Heinz Kindermann), Sergio Berlato, António Campos, Giorgio Celli, Alejandro Cercas Alonso, (for María Izquierdo Rojo), Arlindo Cunha, Michel J. M. Dary, Anne Ferreira (for Bernard Poignant), Christel Fiebiger, Francesco Fiori, Carmen Fraga Estévez (for Encarnación Redondo Jiménez), Georges Garot, Lutz Goepel, Michiel van Hulten, (for Willi Görlach), Elisabeth Jeggle, Salvador Jové Peres, Hedwig Keppelhoff-Wiechert, Christa Klauf, (for Michel Ebner), Dimitrios Koulourianos, Albert Jan Maat, Jean-Claude Martinez, Emilia Franziska Müller (for Xaver Mayer), Camilo Nogueira Román (for Carlos Bautista Ojeda), Niel Parish, Mikko Pesälä, Giovanni Procacci, María Rodríguez Ramos, Agnes Schierhuber, Struan Stevenson and Robert William Sturdy.

The Committee on Budgets decided on 23 February 2000 not to deliver an opinion.

The report was tabled on 13 September.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

LEGISLATIVE PROPOSAL

Proposal for a Council regulation amending Regulation No 3448/93 laying down the trade arrangements applicable to certain goods resulting from the process of agricultural products (COM(1999) 717 - C5-0095/2000 – 1999/0284(CNS))

The proposal is amended as follows:

Text proposed by the Commission¹

Amendments by Parliament

(Amendment 1)

Recital -1 (new)

The forthcoming agricultural negotiations in the framework of the World Trade Organisation must, on the European side, be conducted in such a way as to maintain the trade development prospects of the agri-foodstuffs processing industry while meeting the requirements of the European agricultural model. The amendment of Regulation No 348/93 laying down trade arrangements applicable to certain goods resulting from the processing of agricultural products can only provide an emergency and provisional response to the European agri-foodstuffs industry's supply problems, pending a solution to the underlying problems. Therefore, alternative solutions to the proposed amendment of Regulation 3448/93 should be considered in order to respond to specific sectoral problems; export refunds should be given in priority to those sectors that in practice cannot have access to inward processing for specific reasons (e.g. when industry cannot have access to imports because of problems related to GMOs). In any event, the measures taken should not deprive the agri-foodstuffs processing industry of the scope for financing afforded by the Uruguay Round

¹ OJ C 89, 28.3.2000, p. 81.

accords.

Justification:

The amendment of Regulation 3448/93 is a very specific and insufficient solution for products not covered by Annex I. A balanced and final solution can only be achieved as part of the multilateral negotiations already initiated in Geneva. Attention should be paid to the fact that certain goods and/or sectors in practice cannot have access to inward processing. It should be noted that during the last two years, the United States, which is the EU's main international competitor in this sector, has increased its agricultural subsidies which are problematic in relation to the Uruguay Round rules. Through large-scale programmes of direct emergency aid in response to natural disasters or, since 1998, in order to offset falling prices, the United States has recouped for its farmers \$ 5.3 billion (2000) and \$ 8.0 billion (2000) instead of \$ 1.2 billion per year previously for the first of these two items.

(Amendment 2)

Recital 2a (new)

Stressing the importance of the industrial sector concerned, on which 2.5 million jobs in Europe depend, thus constituting an important factor in social stability and regional planning.

Justification:

It is important to stress the role of the undertakings concerned in maintaining social and economic balance in the Member States.

(Amendment 3)

Recital 3

Under agreements concluded in accordance with Article 300 of the Treaty, it is possible that the requirements for the processing industries in terms of agricultural raw materials may not be covered completely, under competitive conditions, by Community raw materials. Article 117(c) of Council Regulation (EEC) No 2913/92, as last amended by Regulation (EEC) No 955/1999 of the European Parliament and of the Council establishing the Community Customs Code, admits goods under the inward processing arrangements subject to fulfilment of the economic conditions as defined by Commission Regulation (EC) No 2454/93, as last amended by Regulation

Under agreements concluded in accordance with Article 300 of the Treaty, it is possible that the requirements for the processing industries in terms of agricultural raw materials may not be covered completely, under competitive conditions, by Community raw materials. Article 117(c) of Council Regulation (EEC) No 2913/92, as last amended by Regulation (EEC) No 955/1999 of the European Parliament and of the Council establishing the Community Customs Code, admits goods under the inward processing arrangements subject to fulfilment of the economic conditions as defined by Commission Regulation (EC) No 2454/93, as last amended by Regulation

(EC) No 1662/1999. Having regard to the abovementioned agreements, there should also be provision for considering the economic conditions to have been fulfilled for the admission of certain quantities of agricultural products under the processing arrangements.

(EC) No 1662/1999. Having regard to the abovementioned agreements, there should also be provision for considering the economic conditions to have been fulfilled for the admission of certain quantities of agricultural products under the processing arrangements. ***An exemption should be introduced for milk to the effect that liquid milk from the internal market may be regarded as the equivalent of imported milk powder and/or butter provided that there is a balance in the content of the ingredients of the milk concerned and a correction is applied for the value added in the imported products.***

Justification:

The Council itself points out that inward processing is a difficult procedure for the food industry and almost impossible for anyone using fresh milk as a raw material. Fresh milk is not available on the world market in sufficient quantities. The Commission's proposal for a ceiling on imports of each type of raw material is not a satisfactory solution to the disparity in the scope for using inward processing within the individual sectors. This amendment is a practical attempt to create share the burden more equally among the sectors concerned by adding a rule that liquid milk from the internal market may be regarded as the equivalent of imported milk powder and butterfat provided that no more dried milk ingredients are imported than are used in producing the exported products (with a correction applied for the value added in the imported products).

(Amendment 4)
Recital 3a (new)

In using and allocating the export refund budget for goods not covered by Annex I, it should be ensured that the export refunds for individual agricultural raw materials are financed by means of producer levies and are not paid from the Community budget. This fact must be taken into account by giving priority to such raw materials in allocating export refunds.

Justification:

Export refunds for agricultural raw materials whose organisation of the market does not provide for producer levies must be financed from the Community budget without being offset

by corresponding income. Given the constraints on the budget, it is therefore appropriate to ensure that priority for export refunds is given to those sectors in which producers pay levies to finance the refunds.

(Amendment 5)

Recital 4a (new)

Primary agricultural primary products imported at world market prices under inward processing arrangements, which are exported as processed products with export refunds, must not result in disruption of internal trade in those products.

Justification:

The practice of inward processing, under which industry buys at world market prices and exports with refunds, must be kept within strict confines to avoid any distortion of competition.

(Amendment 6)

Recital 4b (new)

In order to guarantee respect for the European agricultural model and the constraints arising from the reform of the CAP as a whole, and to maintain the budgetary interests of the Union, the quantities of imported raw materials eligible for inward processing arrangements must take due account of the market situation and developments in the budgetary and regulatory framework. Distortions between the individual raw materials may be avoided by granting authorisation for inward processing only for specific raw materials and not in the form of vouchers which are transferable between different raw materials.

Justification:

For the sake of clarity and legal certainty, it is important to include an explicit reference to the two underlying principles of the proposal, namely that raw materials imported under the inward processing arrangements should be subject to the market situation in each COM,

legislative developments and available budgetary resources.

As regards the third principle - safeguarding the budgetary interests of the Union - for the same amount of expenditure on export refunds for products not covered by Annex I, the Union's own resources decrease when the quantity of Community sugar for example, exported in those goods decreases. In addition, the administrative procedures should ensure that the use of inward processing arrangements and the associated substitution of EU-produced agricultural raw materials by imported raw materials does not result in certain raw materials being completely abandoned.

(Amendment 7)

Recital 4c (new)

In view of their specific interests, small exporters should be exempted from submission of certificates under the export refund arrangements.

Justification:

The administrative formalities arising from the inward processing arrangements and the financial risks experienced by SMEs in the system as a result of cash problems and excessive reimbursement delays make it necessary to provide special treatment for small exporters. In view of their specific interests, SMEs should be exempted from the new arrangements and benefit exclusively from export refunds.

(Amendment 8)

ARTICLE 1, PARAGRAPH 2

Article 8(5a) (new) (Regulation 3448/93)

5a. The amount below which small exporters may be exempted from presentation of certificates under the export refund arrangements shall be set at EUR 50 000 per year. This amount may be adjusted in the light of the requirements of the various sectors concerned.

Justification:

To take account of the specific situation of SMEs and of their situation in the sector, they should be exempted from the certificate system. It is important, however, to ensure that this arrangement is effectively and exclusively used for SMEs and is not used for other purposes. Hence the proposal for a ceiling of EUR 50 000, instead of the Commission's initial proposal of EUR 20 000 which was clearly inadequate to cover all of the SMEs concerned. However, sufficient flexibility should be maintained to enable the necessary adaptations to be made in

response to the various sectors' requirements.

(Amendment 9)

ARTICLE 1, PARAGRAPH 2a (new)

Article 9a (new) (Regulation 3448/93)

The appropriations under Chapter B1-30 should be amended for the 2000 financial year so that the products not covered by Annex I may enjoy the full effects of the devaluation of the euro in relation to the dollar and the scope for carrying over refund appropriations not disbursed during preceding financial years, to enable the current GATT ceiling to be used to the maximum.

Justification:

It is essential that the Commission give itself the necessary budgetary resources, in the amending budget for the year 2000, so that it can use all its rights this year to export products not covered by Annex I with a refund under the COM.

Given its economic and social importance, it is particularly important that the facility to carry over unused refunds from previous financial years, which it will no longer be possible to use from 2001, is applied fully to the sector of products not covered by Annex 1.

(Amendment 10)

ARTICLE 1, PARAGRAPH 3

Article 11(1), indent, 2nd subparagraph, 2nd part (Regulation 3448/93)

These quantities shall be determined with the aid of a supply balance drawn up by the Commission based on a comparison between the required available funds and the forecast refund requirements. This supply balance, and hence these quantities shall be reviewed at regular intervals in order to take account of developments in economic and regulatory factors.

These quantities shall be determined with the aid of a supply balance drawn up by the Commission based on a comparison between the required available funds and the forecast refund requirements ***(which latter figure shall be deemed to include the estimated amount saved through the recent targeting of certain products for the abolition or reduction of export refunds)***. This supply balance, and hence these quantities shall be reviewed at regular intervals in order to take account of ***the internal and external market situation and developments in the budgetary and regulatory framework.***

Justification:

In order to calculate accurate and fair quantities of products to be admitted under inward processing arrangements, the savings made by a reduction or abolition of export refunds need to be taken into account. For the sake of clarity and legal certainty, it is important to include an explicit reference to the two underlying principles of the proposal, namely that raw materials imported under the inward processing arrangements should be subject to the market situation in each COM, legislative developments and available budgetary resources.

(Amendment 11)

ARTICLE 1, PARAGRAPH 3

Article 11 paragraph 1, third subparagraph (Regulation 3448/93)

The detailed rules for the application of the preceding paragraph, making it possible to determine the agricultural products to be admitted under inward processing arrangements and check and plan the quantities thereof, shall be adopted in accordance with the procedure referred to in Article 16.

The detailed rules for the application of the preceding paragraph, making it possible to determine the agricultural products to be admitted under inward processing arrangements and check and plan the quantities thereof, ***shall guarantee greater clarity for operators through prior publication of indicative import quantities during each period in which applications are submitted for refund certificates. The detailed application rules*** shall be adopted in accordance with the procedure referred to in Article 16.

Justification:

Operators require greater transparency to reduce the uncertainty in their relations with customers.

(Amendment 12)
ARTICLE 1, PARAGRAPH 3
Article 11(1a) (new) (Regulation 3448/93)

With regard to the raw materials ordered by the food industry at world market prices under the inward processing arrangements, the Commission should ensure that priority is given to the use of raw materials available in the EU which would otherwise be exported without export subsidies onto the world market (e.g. C-sugar). In allocating export refund certificates, account must be taken of the fact that the common organisations of the market for certain agricultural raw materials provide for producer levies to finance export refunds. Priority should therefore be given to those raw materials when the export refund budget is allocated.

Justification:

Under the inward processing arrangements whereby industry buys at world market prices and exports with refunds, preference must be given to EU products which would otherwise be brought onto the world market without export refunds. Export refunds for agricultural raw materials whose organisations of the market do not provide for producer levies must be financed from the Community budget without being offset by corresponding income. Given the constraints on the budget, it is therefore appropriate to ensure that priority for export refunds is given to those sectors in which producers pay levies to finance the refunds.

(Amendment 13)
ARTICLE 1, PARAGRAPH 3
Article 11(2) (Regulation 3448/93)

The quantity of goods admitted under inward processing arrangements and, therefore, not subject to the charge provided for in Article 2 for the purpose of or as a result of exporting other goods shall be *that* actually used in the manufacture of the goods.

The quantity of goods admitted under inward processing arrangements and, therefore, not subject to the charge provided for in Article 2 for the purpose of or as a result of exporting other goods shall be *the quantities of individual raw materials* actually used in the manufacture of the goods.

Justification:

For the sake of clarity and legal certainty, it is important to include an explicit reference to the two underlying principles of the proposal, namely that raw materials imported under the inward processing arrangements should be subject to the market situation in each COM, legislative developments and available budgetary resources. In addition, the administrative procedures should ensure that the use of inward processing arrangements and the associated substitution of EU-produced agricultural raw materials by imported raw materials does not result in certain raw materials being completely abandoned.

(Amendment 14)
ARTICLE 1, PARAGRAPH 3
Article 11(2a) (new) (Regulation 3448/93)

As an exemption from the provisions of Article 115(2) of Council Regulation (EEC) No 2913/92, the quantity referred to in paragraph 2 may be replaced by imports of milk powder and/or butter/butter oil provided that liquid milk or cream is used in the production of the exported goods and that none of the following ingredients of milk: milk fat, milk protein and lactose, calculated on the basis of dry matter, exceed the corresponding ingredients used in production. The quantities shall be reduced however by a coefficient equivalent to the value added through processing in the imported products as established by the Commission in accordance with the procedure laid down in Article 16.

Justification:

The Council itself points out that inward processing is a difficult procedure for the food industry and almost impossible for anyone using fresh milk as a raw material. Fresh milk is not available on the world market in sufficient quantities. The Commission's proposal for a ceiling on imports of each type of raw material is not a satisfactory solution to the disparity in the scope for using inward processing within the individual sectors. This amendment is a practical attempt to create share the burden more equally among the sectors concerned by adding a rule that liquid milk from the internal market may be regarded as the equivalent of imported milk powder and butterfat provided that no more dried milk ingredients are imported than are used in producing the exported products (with a correction applied for the value added in the imported products).

(Amendment 15)

ARTICLE 1, PARAGRAPH 5a (new)
Article 21a (new) (Regulation 3448/93)

An interim report shall be submitted by the Commission to the European Parliament at the end of the first year of the new system, which should, in particular, take stock of the situation in each COM concerned.

Justification:

It is important for the European Parliament to have a monitoring instrument available to ensure that the extension of the inward processing arrangements remains limited and marginal, that it only covers the quantities actually necessary, that it has no adverse effects on our producers of raw materials and that it does not concentrate on particular common organisations of the market to the point of disrupting their balance.

DRAFT LEGISLATIVE RESOLUTION

European Parliament legislative resolution on the proposal for a Council regulation amending Regulation No 3448/93 laying down the trade arrangements applicable to certain goods resulting from the processing of agricultural products (COM(1999) 717 - C5-0095/2000 – 1999/0284(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(1999) 717²),
 - having been consulted by the Council pursuant to Articles 37 and 133 of the EC Treaty (C5-0095/2000),
 - having regard to Rule 67 of its Rules of Procedure,
 - having regard to the report of the Committee on Agriculture and Rural Development (A5-0228/2000),
1. Approves the Commission proposal as amended;
 2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty,
 3. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;
 4. Calls for the conciliation procedure to be initiated should the Council intend to depart from the text approved by Parliament;
 5. Asks to be consulted again if the Council intends to amend the Commission proposal substantially;
 6. Instructs its President to forward its position to the Council and Commission.

² OJ C 89, 28.3.2000, p. 81.

EXPLANATORY STATEMENT

Processed agricultural products: a successful sector, exemplifying European food production methods and in growing demand on the world markets

From 1980 to 1999 world trade in agri-foodstuffs doubled, increasing at twice the rate of trade in agricultural products. Although, as a proportion of world trade, agricultural products and processed products are decreasing, the share of processed agricultural products (medium and high value) in relation to raw materials has been steadily increasing since the end of the '60s. The markets in processed agricultural products now have a major knock-on effect on raw material markets. The considerable increase in sales of European food products on world markets also shows that the European food industry has been capable of developing comparative advantages with a higher growth potential.

In this context, the Community prices of certain agricultural raw materials are, in most cases, still very far from international levels. For instance, the price of milk in the Community is twice as high as the world price and that of sugar is four times as high. In this situation, although export refunds have barely compensated the gap between domestic and international prices of raw materials, the European agri-foodstuffs industry has remained extremely competitive on international markets. Through the major efforts made by its businesses in the fields of research, improvement of methods, marketing and food security, the European Union has in fact acquired a dominant position in beverages, cereal products (pasta, meal, flour, etc.) and sugar, milk and starch products (chocolates, biscuits, confectionery, etc.).

As a result, value-added food products now account for almost 75% of European trade in agricultural and food products (EUR 33.9 billion out of 46.5 billion - 1996/98 average) and exports in such products have risen by 117% over the last 10 years as compared with an increase of 34% for exports in basic agricultural products. More specifically, exports in food products not covered by Annex I of the Treaty account for almost 25% of total exports in food products (EUR 11.6 billion - 1996/98 average). Moreover, food industry products show a largely positive commercial balance (especially products not covered by Annex I: EUR 9 108 million - 1996/98 average).

In conclusion, processed agricultural products have enabled the European Union to reduce its raw materials surpluses, to increase the value added of the sector as a whole, to maintain a major area of employment in the 15 Member States, throughout their territory and especially in rural areas and, lastly, to gradually reduce its traditional agri-foodstuffs deficit. Mention should also be made of the considerable efforts made over the last few years by all sections of the European agricultural and food industry to reverse this unhealthy deficit of the European agri-foodstuffs sector while remaining extremely open to imports since the European Union is still the world's leading importer of agricultural products.

All these factors justify the European Union's concern to maintain not only current levels but also prospects for the development of the trade potential offered by the agri-foodstuffs processing industry. This is a vital means of preserving producers' incomes, guaranteeing regional planning and, in particular, ensuring that the economic fabric of rural areas remains strong. Our aim is in fact also to help promote a European agricultural and food production model.

It is worth noting that the food industry, which is by far Europe's leading industrial sector - with a turnover of more than EUR 500 billion, 22 000 businesses with more than 30 000 plants and the main economic activity of many local communities - processes 70% of the European Union's agricultural production. As the leading user of services (transport, publicity, computer technology, etc.) and leading large-scale supplier, the food industry plays a unique and prominent part in the European Union's economy. It has made a major contribution to food security over the last few decades in Europe and in a growing number of countries.

Exports of processed agricultural products and budgetary constraints

The Marrakesh agricultural agreement set a ceiling on export refunds for processed agricultural products not covered by Annex I of the Treaty at EUR 475 million for the 2000 financial year and EUR 415 million for 2001 and subsequent years. However, as a result of the carry-over of the balances of amounts not utilised in the previous four years, the 475 million limit would not actually apply in the 2000 budgetary year. In addition, the fact that the Euro has fallen in relation to the dollar places European exports in a more comfortable position in the present economic situation.

It is not therefore the need to respect WTO commitments but rather the budgetary situation in which the European Union has chosen to place itself which is at the root of the present difficulties. In other words, the European Union's decision to reconsider the amount of resources allocated to agriculture is a way of dealing with its own contradictory policy, consisting in initiating new actions while operating on the same budget. The Commission's proposal for aid to Kosovo is a striking example of this tendency.

The budgetary tensions threatening the European Union in this 1999-2000 budgetary year are not the real reason for modifying the export regime for processed products. The present situation caused the issuing of certificates for products not covered by Annex I to be suspended in May 2000 at a time when certain agricultural budgetary lines showed a surplus, as Commissioner Schreyer recently indicated to Parliament's Committee on Agriculture.

In this area, the Commission is in fact misusing resources: the refund certificates for products not covered by Annex I (which represent an additional administrative cost for businesses) are intended exclusively to enable the European Union to meet its international commitments. Applying reduction factors to requests for certificates in respect of products not covered by Annex I as a means of budgetary control in 1999-2000 is therefore unacceptable.

The solution envisaged by the Commission to overcome the budgetary tension comprises two elements: a series of targeted economies and amendment of Council Regulation 3448/93. In more specific terms:

- it provides for the removal of refunds in certain sectors,
- it introduces a system of allocation of budgetary resources through the issuing of refund certificates in order to take account of constraints resulting from the Marrakech agricultural agreements;

- it seeks, to a limited extent, to enable the agri-foodstuffs industry to have greater access to agricultural raw materials imported at competitive prices (zero duty) by means of inward-processing arrangements under certain conditions and requires processed goods to be re-exported;
- the proposal provides for automatic admission to the inward-processing arrangements for a given quantity of basic raw materials, without reference to economic conditions on the basis of a supply balance showing the refund shortfall; this balance, and hence these quantities, are to be reviewed at regular intervals to take account of international demand and developments in the economic and regulatory factors; imports of raw materials under these arrangements would be limited to the quantities required for the export of finished products not covered by refunds.

Critical comments and proposed amendments

The rapporteur considers that the decision to cut refunds for certain products is unacceptable because it calls into question arrangements whose aim was to contribute to the management of the internal market by supporting exports and which has been validated by the WTO.

The rapporteur has also already informed the Commission that he is against the policy of using the non-Annex I certificate arrangements to limit expenditure when the GATT ceiling had not even been reached.

In this context, the rapporteur doubts whether the opening of an additional facility for raw materials that have access to the inward processing arrangements will be sufficient to cover the food industry's supply and export requirements. However, in the absence of other measures, it can act as an emergency and provisional remedy to the European agri-foodstuff industry's supply problems. The problems caused by more complex administrative formalities, which have applied to refunds since January 1999, as well as the sudden and unilateral decision to cancel such refunds for some products, as well as the lack of clarity in planning which raw materials should have access to the inward-processing arrangements call for specific amendments in favour of small exporters and flexible and transparent management of the balance vis-à-vis operators.

However, the opening of the inward processing arrangements can only be a provisional measure aimed at dealing with the most urgent problems. In essence, the arrangements represent a breach of the system of Community preference. Any extension of these arrangements must therefore be controlled and monitored very strictly. The implementation of the inward processing arrangements is particularly complex and cumbersome, thereby penalising a large number of SMEs, which account for a large proportion of the refunds.

Our processing industries have developed close relations with Community producers, guaranteeing them security, regularity and quality of supply in raw materials – a vital asset to them and producers, which should not be undermined. The extension of inward processing arrangements should not be allowed gradually to create competition between the processing industries and the producers and thereby to weaken coordination of the agriculture sector.

The above remarks are intended to emphasise the secondary nature of the inward processing arrangements in relation to the export refund system. The Commission proposal is an emergency measure. It in no way resolves the more fundamental problem we need to tackle.

The consequences of the concessions made by the European Union at Marrakesh will become manifest in 2001. From that date onwards, the EAGGF Guarantee Section budget will be totally inadequate for the European agri-foodstuffs industry to continue to play a major role on the world markets. This problem will be proportionately more serious for non-Annex I products. The WTO ceiling, as from 2001, will be far from sufficient to cover the estimated refund requirements of operators. In 2001 it will be reduced to EUR 415 million. If the Commission continues or steps up its unilateral practice of applying new reduction factors to applications for certificates and even cancelling refunds on some products, it will make it impossible for operators to know where they stand in their relations with customers at a time when the world demand in processed food products is steadily increasing. The at times very serious consequences of measures taken by the Commission to cancel refunds on certain products (beer, amino acids, etc.) can already be felt in a number of sectors (fermentation biotechnologies).

In this connection, the first thing to consider in order to guarantee respect for the European agricultural and food production model must be the negotiation of a new regulatory framework for exports of products not covered by Annex I as part of the WTO's millennium round. Further reductions would in any case not be tolerable.

The second possibility to explore is that of a serious analysis by the Commission of the proposed alternative solutions, such as the 'German' proposal. The Commission's lack of creativity in seeking to identify alternatives that are compatible with the WTO commitments and allow the use of Community agricultural raw materials is regrettable. We regret that the Commission has merely proposed a single solution favouring non-Community agricultural producers.

As regards the cereal sector, Agenda 2000 makes it possible to bring domestic prices down by 15% in two years, i.e. a 50% reduction since 1992. The lowering of refund costs has thus been made bearable in budgetary terms for all products which contain cereals, whereas the use of the inward processing arrangements by the EU encourages its competitors on the world market to resort to support measures which are illegal under international agreements.

Solutions which take due account of each COM's specific situation can therefore be introduced that are more beneficial than the brutal establishment of derogations to the COMs, such as the cutting of refunds from lists of processed products in all sectors or the application of inward processing arrangements without prior consideration of the economic situation.

It must be borne in mind that these important issues are to be analysed with a view to maintaining the competitiveness of the European food industry on the world market and consolidating the close links which have been built up by the European processing industries with producers of raw materials.